MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016 / 2017 SESSION

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

11 OCTOBER 2016
2.30 - 4.30 P.M.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **3** pages with **7** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Students are not allowed to take this paper out of the examination hall/room.

Question 1 (8 marks)

a. List the 4 methods that may be used for the hedging of financial risks? (4 marks)

b. What are uncertainty analysis and risk analysis. (4 marks)

Question 2 (9 marks)

What is product life cycle (*PLC*)? Explain its developmental stages with a graphical example. (9 marks)

Question 3 (12 marks)

a. Describe and discuss the asset substitution problem. (4 marks)

b. Your assets have an equal chance of being worth either RM1,500 or RM600 at year's end. Your debt is RM1,000 and due at the end of the year. Now suppose you substitute your current assets for riskier assets that have the same expected value but a wider dispersion. The riskier assets now have equally likely payoffs of RM2,000 and RM700. With the same expected value, the asset substitution renders a zero NPV. Does this mean that you are better off? (8 marks)

Question 4 (16 marks)

a. A large investor wants your firm to help him sell a large block of 50,000 shares of a stock. The current market price of the stock is RM36.00 per share. When this block of stock hits the market, it should depress prices from their current level. Consequently, this investor is willing to sell to your firm at a price of RM34.00 per share.

   i. If transaction costs are RM0.40 per share and the market price does not move, what profit will your firm make with this deal? (5 marks)

   ii. If the market price drops to RM33.00 per share, what profit will your firm make? (5 marks)

   iii. What is the largest price drop that will still enable your firm to make a profit? (4 marks)

b. The Internet has made all types of information more available and at lower cost. Why would you expect this to increase capital market efficiency? (2 marks)

Question 5 (24 marks)

a. Firm A intends to acquire Firm B. The acquisition will cost Firm A RM110 million. Firm A plans to install new management, "fix" the company, and sell it at the end of 5 years. The projected incremental after-tax cash flow stream that Firm A expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM10 million, RM15 million, RM20 million, RM25 million, and RM30 million. In addition, the projected after-tax proceeds from selling Firm B at the end of 5 years amount to RM150 million.

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Answer the questions below.

i. Calculate the NPV of the acquisition, assuming a 18 percent cost of capital. (9 marks)
ii. Calculate the internal rate of return for the acquisition. (7 marks)
iii. Should Firm A proceed with the acquisition? (4 marks)

b. What issues make the analysis of acquisitions difficult? (4 marks)

Question 6 (19 marks)

a. The firm you work for is trying to decide to file either a Chapter 7 or a Chapter 11 bankruptcy. If it chooses to reorganize, the following future cash flows (M = millions) are expected:

Year	1	2	3	4	5
CF (M)	RM50	RM60	RM70	RM80	RM90

The appropriate discount rate is 12 percent. The liquidation value of the firm is RM200M. (Assuming you are now working in the United States of America).

Answer the questions below.

i. What is the reorganization value? (7 marks)
ii. Should the firm file a Chapter 7 or a Chapter 11 bankruptcy? (2 marks)

b. What are some of the causes of financial distress? (6 marks)

c. When does a firm seek protection from its creditors under Chapter 11? (4 marks)

Question 7 (12 marks)

a. A firm is considering a capital expansion project with the following expected cash flows (in millions):

Time (t)	0	1	2	3	4	5	6
Cash flow (millions)	−60	10	20	30	40	50	60
Abandonment (millions)	n.a.	30	25	30	25	20	n.a.

If the cost of capital for this project is 15 percent, what is the net present value? Should the project be undertaken? (8 marks)

b. You are evaluating a proposed expansion project and you determine that the DCF-NPV is –RM50,000. However, by investing today, you think you might have a future growth option to expand further but it would cost you an additional RM60,000 (in today's dollars) to have this option. If this future opportunity occurs, you estimate the present value of this option will be RM300,000. However, there's only a 50 percent chance of this occurring. Does the growth option make investment in the proposed project a positive NPV? (4 marks)

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